

This Listing Statement is compiled by the Exchange from documents filed by the Company in making application for listing. It is issued for the information of members, member firms and member corporations of the Exchange. It is not and is not to be construed as a prospectus. The Exchange has received no consideration in connection with the issue of this Listing Statement other than the customary listing fee. The documents referred to above are open for inspection at the general office of the Exchange.

LISTING STATEMENT No. 2291.

LISTED MAY 21, 1968
1,404,807 Income Shares of \$1 par value each.
Stock Symbol "HEM PR".
Post Section 10.
Dial Quotation No. 1803.

1,404,807 Capital Shares of \$1 par value each.
Stock Symbol "HEM".
Post Section 10.
Dial Quotation No. 1802.

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THE TORONTO STOCK EXCHANGE

LISTING STATEMENT

HEMISPHERE FUND, INC.

Incorporated under the Laws of the State of Delaware by
Certificate of Incorporation dated April 20, 1967

CAPITALIZATION AS AT NOVEMBER 1, 1967

CAPITAL STOCK	AUTHORIZED	ISSUED AND OUTSTANDING	TO BE LISTED
Income Shares (\$1 Par Value)	2,000,000	1,404,807	1,404,807
Capital Shares (\$1 Par Value)	2,000,000	1,404,807	1,404,807

1. APPLICATION

HEMISPHERE FUND, INC. (hereinafter called the "Company") hereby make application for listing on The Toronto Stock Exchange of 1,404,807 Income Shares (\$1 Par Value) and 1,404,807 Capital Shares (\$1 Par Value) of the capital stock of the Company, all of which are issued and outstanding, fully paid and non-assessable.

2. HISTORY

The Company was incorporated on April 20, 1967 under the Laws of the State of Delaware and is a closed-end investment company registered as such with the United States Securities and Exchange Commission under the Investment Company Act of 1940. On June 8, 1967, 4,807 Income Shares and 4,807 Capital Shares were issued to Tsai Management & Research Corporation and there was paid therefor \$109,984.16 to provide the Company's initial capital. Thereafter, on June 21, 1967, 1,400,000 Income Shares and 1,400,000 Capital Shares were sold to the public by a group of underwriters.

3. NATURE OF BUSINESS

The Company is a closed-end investment company registered as such with the United States Securities and Exchange Commission under the Investment Company Act of 1940. It invests and reinvests its assets in the securities of other companies. Pursuant to a management contract dated June 19, 1967, Tsai Management & Research Corporation furnishes the Company with investment advice, certain administrative services and office space and facilities and pays the compensation of all officers and employees of the Company.

4. INCORPORATION

The Company was incorporated under the Laws of the State of Delaware by Certificate of Incorporation dated April 20, 1967, with an authorized capitalization of 2,000,000 Income Shares (\$1 Par Value) and 2,000,000 Capital Shares (\$1 Par Value).

5. SHARE ISSUES DURING PAST TEN YEARS

(a) Income Shares (\$1 Par Value)

<u>Date of Issue</u>	<u>No. of Shares Issued</u>	<u>Amount Realized Per Share</u>	<u>Total Amount Realized</u>	<u>Purpose of Issue</u>
June 8, 1967	4,807	\$11.44	\$ 54,992.08	To raise the initial capital required by the Investment Company Act of 1940.
June 21, 1967	1,400,000	\$11.44	\$16,016,000.00	To invest and reinvest in securities.

(b) Capital Shares (\$1 Par Value)

<u>Date of Issue</u>	<u>No. of Shares Issued</u>	<u>Amount Realized Per Share</u>	<u>Total Amount Realized</u>	<u>Purpose of Issue</u>
June 8, 1967	4,807	\$11.44	\$ 54,992.08	To raise the initial capital required by the Investment Company Act of 1940.
June 21, 1967	1,400,000	\$11.44	\$16,016,000.00	To invest and reinvest in securities.

6. STOCK PROVISIONS AND VOTING POWERS

(a) Voting Rights

Except as noted below, the shares of both classes have equal voting rights of one vote per share and vote together as a single class. In elections of directors the holders of the Income Shares, as a separate class, vote to elect two directors and the holders of the Capital Shares, as a separate class, vote to elect the remaining directors. If cumulative preferential dividends on the Income Shares (minimum dividends are \$.625 annually) are in arrears in an amount equal to two full years' dividends, the holders of such shares have the right to elect a majority of the directors until all arrearages of such dividends have been paid or otherwise provided for. On all other matters voted upon by shareholders the holders of the Income Shares and the holders of the Capital Shares will vote together as one class, except that each class of shareholders will be entitled to vote as a class on amendments to the Certificate of Incorporation that would adversely affect its interests. Further, so long as any Income Shares are outstanding: (1) the approval of the holders of at least 66⅔% of the outstanding shares of the class so affected, acting as a separate class, shall be required to alter, change or repeal the voting powers, designation, preferences or relative, participating, optional or other special rights of such class or the qualifications, limitations or restrictions of such preferences and/or rights so as to affect such class directly and adversely; (2) the Fund shall not be voluntarily liquidated, dissolved, wound up, merged or consolidated, and shall not sell all or substantially all of its assets, without the approval of at least 66⅔% of the shares of both classes of stock outstanding, each acting as a separate class; (3) the approval of a majority of the outstanding shares of the class of stock so affected, acting as a separate class, shall be required for the adoption of any plan of reorganization adversely affecting such class; (4) the approval of a majority of the outstanding shares of both classes of stock, each acting as a separate class, shall be required to approve any action requiring a vote of security holders as in Section 13(a) of the Federal Investment Company Act of 1940 provided, including, among other things, changes in the Fund's subclassifications as an investment company, changes in its investment objectives or policies or changes in related restrictions; and (5) without the approval of a majority of both classes of stock (acting together as a single class) and of the Securities and Exchange Commission the provision of the By-Laws requiring persons responsible for or directly involved in the investment management of the Fund to own or hold Income Shares and Capital Shares only in equal amounts may not be changed.

(b) Dividends

The Income Shares are entitled, subject to the following provisions, to cumulative preferential dividends, in an amount equal to "Available Income" as herein defined, which will accumulate and accrue whether or not declared. "Available Income" is an amount equal to any dividends and interest received by the Fund, less an amount equal to one-half of the operating expenses, and less certain taxes. If payments to shareholders of Available Income, as so computed, would not enable the Fund to qualify as a regulated investment company under the Internal Revenue Code, there will be included in Available Income such amount of any net realized short-term capital gains as may be necessary to enable the Fund to qualify for the favorable tax treatment. Any amount which is added to Available Income in any year, as provided above, in excess of the amount required to pay minimum dividends or arrearages thereof and which is paid to Income Shareholders in order to permit the Fund to qualify for the favorable tax treatment, will be deducted in subsequent years from any Available Income which is not required to pay minimum dividends or arrearages thereof in such subsequent years to the extent that such deduction will not require the addition of any amount to Available Income as above provided. The Income Shareholders are not entitled to receive any other distribution of capital gains or capital surplus except to the extent that such gains or surplus may be included in Available Income due to the fact that only one-half of the expenses of the Fund are deducted in determining such Available Income, or except to the extent that such gains or surplus may be paid to the Income Shareholders upon redemption or liquidation. There shall be excluded from the Available Income to which the Income Shares are entitled as a cumulative preferential dividend any amount of Available Income required to pay arrearages in the minimum cumulative dividends described below.

In any event, the Income Shares are entitled to preferential minimum dividends payable solely out of Available Income (other than amounts thereof consisting of realized net long-term capital gains or capital surplus) at the annual rate of \$.625 per share. Such minimum dividends will accumulate and accrue whether or not earned or declared, and will be paid when and as declared by the Board of

Directors out of funds legally available therefor. Any arrearages in minimum cumulative dividends will be deemed satisfied to the extent of any subsequent payments to the Income Shareholders, except to the extent such payments include any amounts of realized net long-term capital gains, capital surplus or capital.

(c) Retirement of Income Shares

The Income Shares will be non-callable prior to June 30, 1985 and must be called for retirement on that date. Such shares must then be retired as a whole at a cash call price consisting of \$11.44 per share plus accrued and unpaid dividends. However, during the month of May, 1985, each Income Shareholder will have the right to elect to receive in lieu of the cash call price, without payment of any sales charge, that number of Capital Shares arrived at by dividing the aggregate call price of all Income Shares held by him by the net asset value per share on June 30, 1985 of the Capital Shares, provided that the Fund is authorized to change its sub-classification from a closed-end to an open-end investment company. Appropriate adjustment in cash will be made for any resulting fraction. All of the assets of the Fund will be available for the retirement of the Income Shares but there can be no assurance that the Fund will have sufficient assets for this purpose. When all Income Shares have been called, if the Fund has changed its subclassification to that of an open-end investment company, the Capital Shares will become redeemable at the option of the holders thereof at net asset values determined in the manner customary for open-end investment companies and the Fund will then be an open-end investment company. The Fund may, if so determined by the Board of Directors, thereafter commence a continuous offering of Capital Shares upon compliance with applicable federal and state laws and regulations.

7. DIVIDEND RECORD

The Company paid its first dividend in the amount of \$219,501.09 on October 16, 1967. The dividend was paid at the rate of \$.15625 per share on the Income Shares for the quarter ended September 30, 1967.

On January 10, 1968, the Company paid a dividend in the amount of \$351,201.75. The dividend was paid at the rate of \$1.25 per share on the Income Shares for the quarter ended December 31, 1967.

8. RECORD OF PROPERTIES

The Company owns no property other than securities and cash.

9. SUBSIDIARY COMPANIES

The Company has no subsidiary companies.

10. FUNDED DEBT

The Company has no debt other than current liabilities.

11. OPTIONS, UNDERWRITINGS, ETC.

The Company has no outstanding options, warrants or agreements for the sale or underwriting of its securities.

12. LISTING ON OTHER STOCK EXCHANGES

An application for listing of the Company shares on the New York Stock Exchange was approved on January 17, 1968.

13. STATUS UNDER SECURITIES ACTS

A registration statement on Form S-5 relating to 1,400,000 Income Shares (\$1 Par Value) and 1,400,000 Capital Shares (\$1 Par Value) became effective with the Securities and Exchange Commission on June 21, 1967.

The Ontario Securities Commission issued its official receipt dated July 10, 1967, acknowledging receipt of the material required under the Securities Act (Ontario) in reference to the offering of 1,400,000 Income Shares (\$1 Par Value) and 1,400,000 Capital Shares (\$1 Par Value).

The sale to the public in the Province of Quebec of 1,400,000 Income Shares (\$1 Par Value) and 1,400,000 Capital Shares (\$1 Par Value) was approved on July 6, 1967.

14. FISCAL YEAR

The fiscal year of the Company ends on December 31st in each year.

15. SHAREHOLDER MEETINGS

The By-Laws of the Company provide that the Annual Meeting of Shareholders shall be held at the principal office of the Company in the City of New York, New York, or such other place, whether or not in Delaware or New York, as is stated in the call or notice, on the twelfth Wednesday of each fiscal year.

The first meeting of stockholders was held on November 10, 1967, at the offices of Chemical Bank New York Trust Company, 277 Park Avenue, New York, New York.

16. HEAD AND OTHER OFFICES

The head office is located at 245 Park Avenue, New York, New York. The Company has no other offices.

17. TRANSFER AGENTS

The Transfer Agents of the Company are:

The First National Bank of Boston
Boston, Massachusetts

Chemical Bank New York Trust Company
New York, New York

Montreal Trust Company
Toronto, Ontario, Canada

Share certificates are mutually interchangeable.

18. TRANSFER FEE

No fee is charged on stock transfers other than customary government stock transfer taxes.

19. REGISTRAR

The Registrars of the Company are:

The Royal Trust Company
Toronto, Ontario, Canada

Old Colony Trust Company
Boston, Massachusetts

Morgan Guaranty Trust Company of New York
New York, New York

20. AUDITORS

The Company's auditors are Lybrand, Ross Bros. & Montgomery, Certified Public Accountants, 2 Broadway, New York, New York.

21. OFFICERS

The officers and directors of the Company, and their occupations during the past five years, are:

Gerald Tsai, Jr., President and Director, is President and a Director of Tsai Management & Research Corporation, the investment advisor of the Fund. From 1952 until December, 1965, Mr. Tsai's principal occupation was with Fidelity Management & Research Company at various times as an employee, officer and director.

Joseph Auerbach, a Director of the Fund and of the investment advisor, has been for many years a partner in the Boston law firm of Sullivan & Worcester, counsel for the Fund.

*John S. Fielden, Director, has been since 1964 Dean of the College of Business Administration and Professor of Business Administration at Boston University. He was associate editor of the Harvard Business Review and a Member of the Faculty of Harvard University Graduate School of Business Administration from 1959 to 1964.

*Robert W. Purcell, Director, has been since 1958 Chairman of the Board of International Basic Economy Corporation (IBEC), a diversified company with manufacturing and investment activities, including business ventures in underdeveloped countries. He was Chairman of the Board of Investors Diversified Services, Inc. from 1953 to 1957.

Laurence A. Tisch, Director, has been Chairman of the Board and President of Loew's Theatres, Inc. for a number of years.

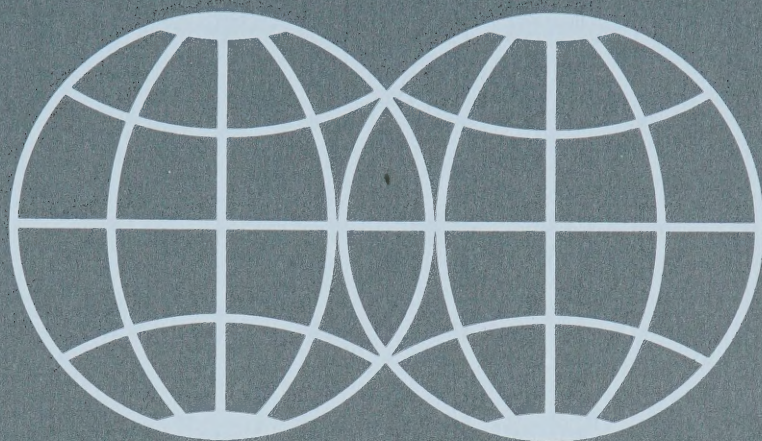
Robert Campbell, Jr., Vice President of the Fund and a Vice President and Director of the investment advisor, was a Vice President and Secretary of General American Investors Company, Inc. for a number of years before joining the Fund.

Robert C. Edwards, Vice President of the Fund and a Vice President and Director of the investment advisor, was a security analyst with Van Strum & Towne, Inc., an investment advisor and underwriter for a group of mutual funds, from 1957 to 1961 and an officer (most recently a Vice President) of Channing Growth Fund, Channing Special Fund and Van Strum & Towne, Inc. from 1961 until joining the Fund.

Irwin Lainoff, Vice President of the Fund and of the investment advisor, was associated with Business Week from 1960 until joining the investment advisor, most recently as Financial Editor.

*Mr. Fielden is a director representing the Income Shares.

*Mr. Purcell is a director representing the Income Shares.



Hemisphere Fund, Inc.

Annual Report, 1967



Hemisphere Fund, Inc.

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My Fellow Shareholders

On behalf of the Board of Directors, I am pleased to submit this first annual report of Hemisphere Fund, Inc. It is particularly satisfying not only because this is a "first," but because Hemisphere Fund helped introduce to the United States a new form of investment—the dual purpose fund that seeks equally to meet, in a single fund, objectives of income and growth in capital. We are confident that such funds have a permanent place in the investment community.

As you know, the public underwriting of Hemisphere Fund in June, 1967, raised \$32.1 million from approximately 8,000 shareholders. The initial public offering price of the fund's income and capital shares was \$12.50 each, with a net, after underwriting costs, of \$11.44 per share received by the fund.

The Two Classes of Stock

The fund's income shareholders received two dividends in 1967 totaling $40\frac{5}{8}\%$ per share. The Board has followed a policy of paying out $15\frac{5}{8}\%$ in each quarter of the year with any excess paid as an "extra" with the last payment of the year. Thus, income shareholders received an additional $9\frac{3}{8}\%$ per share in 1967 beyond the annual minimum cumulative dividend to which they are entitled.

After midyear, the Board plans payment every two months of income dividends. These are presently contemplated to be at the rate of 10¢ per share, with a final adjustment at the end of the year. Any excess income will be paid as an extra with the year's last distribution.

At the close of 1967, the net asset value of the capital shares was \$13.03, an increase of 13.9% from the initial net asset value of \$11.44. In the same period, the Dow-Jones industrial average increased 3.2%.

At year's end, the fund's capital shares traded at a discount from net asset value in the over-the-counter market, and have continued to do so since January 17, 1968, when the fund was listed for trading on the New York Stock Exchange. This is consistent with the general historical discount at which most closed-end investment companies trade. However, we cannot help but believe that a discount may exist because investors do not yet appreciate the concept of dual purpose funds. We believe that the virtues of this form of investment company will, in due course, cause the discount on the capital shares to disappear. The income shares should also find the discount from their initial price eliminated when

the shares and their allocable income have seasoned.

The key, of course, is the leverage factor in a dual fund: income shareholders, who contributed 50% of the fund's original capital, receive all the net income of the company, while the capital holders, who contributed the other 50% of original capital, receive all capital gains. Thus, each shareholder gets the advantage of the use of the capital of the shareholders of the other class. This effect is what is meant by the leverage factor. If the long-term trend of stock prices and dividends continues upward, then the leverage of a dual fund provides an additional feature for investors not otherwise available in the public market.

In shaping Hemisphere's portfolio of investments, management is required to take into consideration the objectives of each class of stock.

The fund aims at a gross yield on its entire portfolio at least equal to 80% of the dividend yield of Standard & Poor's index of 500 stocks over the preceding four quarters. Since its inception the fund's gross yield has been running comfortably above this S&P yardstick. At the end of 1967, the fund's average yield on an annualized basis was 4.07%. On a comparable basis, the S&P yield was 3.11%.

The fund's simultaneous objective of achieving growth in capital has led management to a wide diversity of stocks and bonds. At the close of 1967, your fund had 52.3% of its assets invested in common stocks, 9.5% in preferred stocks, 29.9% in bonds, with the balance in cash or equivalent reserves. The major industry groups represented included oil shares, office equipment and data processing companies, autos, banks, and construction stocks.

Today, Hemisphere continues to maintain approximately a 10% reserve because of the uncertain climate of the stock market.

The Investment Outlook

Investment managers will have to contend with a new set of circumstances in 1968.

To begin with, the peak pressures that arose in materials, manpower, and money because of the initial buildup of the Vietnam war seem to be abating, and military spending could rise little this year. From an investment point of view, this means we must take another look at those companies that benefited from that initial buildup

in war needs. Their price-earnings ratios are apt to be revised if defense spending levels out.

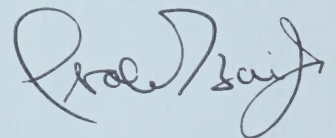
We also are faced with the aftermath of the pound sterling's devaluation. Its long-range impact on our economy and the dollar is unclear. It appears that the Administration may have to take steps to defend against a gold rush from abroad, and those measures could impinge on the economy and corporate profits.

The domestic economy, meanwhile, continues to move along at a reasonably good pace. So much so, in fact, that the Federal Reserve Board has moved to a policy of credit restraint to counter inflationary price increases. If the Administration's proposed tax surcharge is not accepted by Congress, the Federal Reserve may tighten credit still further, if only as another defense of the dollar.

Corporate profits, which turned in only a lackluster showing in 1967, are starting to rise again. For the most part, though, the rise in operating costs should work against any broad cyclical rebound in profit margins, and many industries will have difficulty in improving profits over last year's figures.

In sum, it seems clear that the surface of the domestic economy is rippled with cross currents, and those waves extend to the stock market, where prices have been in a month-long decline. Under these conditions, the best course for us to follow is to invest in those companies that show a trend toward increased earning power and that retain sound value. We believe our portfolio is set on this course.

Respectfully yours,



February 8, 1968

The Concept of the Dual Fund and How to Manage Its Investments

Only a year old in America, the dual purpose fund already has carved a place for itself in the investment community. The idea originated in Britain several years ago, captured the imagination there, and then was transplanted in this country with the launching in 1967 of a handful of funds. Hemisphere Fund, with assets now of \$33-million, is one of the largest.

The dual purpose fund is based on the premise that some investors want a security solely providing income, while others desire to forego income, and seek a security that offers only possible capital growth. Its concept is that all of these investors could pool their funds in such a fashion as to increase their opportunity and ability to satisfy each of their separate goals.

Two classes of stock are involved: income shares for investors who seek a guaranteed minimum return, and capital shares for those seeking capital appreciation. Issued in equal amounts, the income shareholders are entitled to all the net income (essentially investment income less their share of certain expenses) from the fund's *entire* portfolio, while the capital shareholders enjoy any accumulated and future growth in capital from the *entire* portfolio. Various standards are provided to assure that minimum income objectives are met both through a fixed cumulative dividend and a specific investment yield requirement.

In Hemisphere's case, the buildup in capital is to take place over an 18-year period. The income shares then will be retired as a class, and the capital shareholders will own all of the fund's remaining assets, reflecting the increase in capital which management has been able to achieve.

The Leverage Factor

The unusual leverage opportunity provided by the dual fund concept sets it apart from the average investment company.

The income shareholders, for example, receive these benefits. In Hemisphere, they start with a fixed minimum cumulative dividend of 6 $\frac{1}{2}$ ¢-a-share annually. Then, any increase in the dividend income in the company's portfolio above this minimum belongs entirely to them, since they have the entire assets of the fund contributing to their income. Finally, as the assets of the fund grow through market appreciation, the income holder has the

benefit of a required minimum yield objective on these additional assets.

Thus, unlike fixed-income securities which may offer a high current yield but no prospect of future growth in income, the income shares may anticipate a rise in annual dividend distributions as the fund's assets increase in value. In today's economy, this future growth in income could have great significance in offsetting any continued decline in the purchasing power of the dollar.

Capital shareholders on the other hand receive no dividends. They will receive, however, after the income shares are retired, the fruits of the capital appreciation being sought. And in essence, they have \$2 working for them for every \$1 they have invested.

How the Fund is Managed

Except for the maintenance of a minimum yield objective, there is no special formula in managing Hemisphere Fund's investments. Individual portfolio investments need not conform to all of the fund's objectives, so long as the portfolio as a whole meets them. In short, the premium is on investment judgment.

In any Tsai-managed fund, there are two starting points: (1) a belief in the fully-managed concept of investment—the constant appraisal of the fund's portfolio and its ratio of common stocks vs. bonds and (2) a belief that the stress must be on present and future earning power, on the premise that those companies capable of showing increasing earnings (and, therefore, eventually dividends) at a faster rate than industry as a whole will attract investor favor.

In managing Manhattan Fund, a fund whose goal is possible capital growth, Tsai Management & Research Corp. stresses growth stocks. In managing Liberty Fund, Tsai Investment Services, Inc., stresses a mix of income-growth securities. In both funds, flexibility is a byword. Thus, management of Hemisphere Fund's assets is based on an established approach to investment and utilizes techniques already at work in other funds managed by Tsai Management.

Our research analysts function somewhat differently from the research departments of the typical institution. Each has his own specialty; but each, too, is assigned companies in varied industries to which he makes field trips, discusses projection on sales, earnings, possible



financings with top corporate management, and checks with competitors to get competitive readings. In this way, he gets to understand the relative values of securities in several industries, and can recommend what he believes are the companies best suited to fit the portfolio.

The technical analysts are required to take a different approach to the same end objective. They maintain constant study over a wide gamut of economic indicators—money and credit figures, income figures, output and capacity measures—to achieve perspective on what is happening in relation to what might have happened before. They also study trends of the stock market and of individual stocks and stock groups and put them in that same perspective.

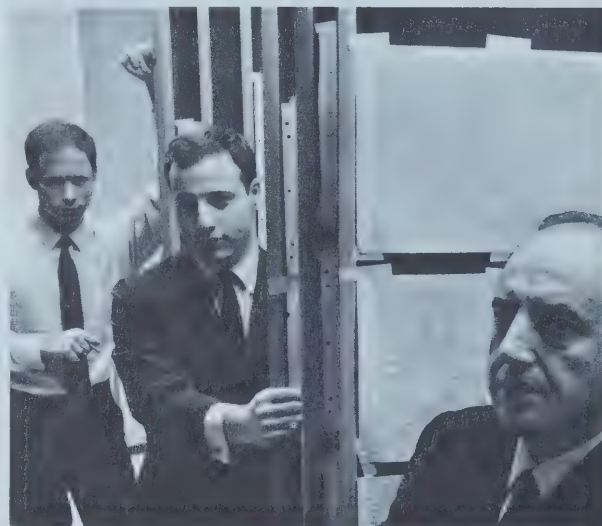
The investment committee of Tsai Management acts as the crucible for all these research ideas. Its function is not only to select individual securities, but to set guiding economic theory and concept, that is, the tone, of the portfolio. At all times, the committee is careful not to lose sight of the basic objective and goal of the stockholders whose money it oversees.

In setting the portfolio's tone, the investment committee looks to the securities it selects to have three major ingredients:

Quality. By quality, we mean those companies with proven earnings capability or those whose earnings and dividend outlook seems to us to be improving to a point of investor acceptability.

Concentration. The concept of diversification is a meaningful one in the mutual fund industry, particularly in a dual fund, but over-diversification can be harmful. It is our view that the more companies in a portfolio, the more average the investment performance. We think that a portfolio's assets should be divided so that a significant amount of these assets are in a relatively few number of well-chosen companies. Otherwise, the impact of good ideas is greatly reduced.

Marketability. Size is an important consideration to any money manager who must deal in large blocks of securities. In an unfavorable climate for business or a particular stock, a manager should be able to reduce a portfolio's ratio of stocks to fixed-income securities and cash or the position in a specific security.



Statement of Assets, Liabilities and Capital

December 31, 1967

ASSETS

In custody of Chemical Bank New York Trust Company:

Investments as annexed, at market value (average cost, \$29,352,188) . . .	\$31,556,805
Corporate short-term notes at cost plus discount earned	2,497,005
Cash	1,198,038
Dividends and interest receivable	178,628
Total assets	<u>35,430,476</u>

LIABILITIES

Payable for securities purchased not yet received	590,011
Dividend payable on Income Shares	351,202
Accrued management fee	41,319
Provision for federal income tax on realized capital gain (Note C)	22,148
Other accrued expenses and taxes	20,868
Total liabilities	<u>1,025,548</u>
Net assets applicable to outstanding shares	<u>\$34,404,928</u>

Shares outstanding and surplus (Note A):

Income Shares, \$1 par value, 2,000,000 shares authorized, 1,404,807 shares issued and outstanding	\$ 1,404,807	
Amounts paid in excess of par value of Income Shares	14,666,185	
Available for cumulative preferential dividends:		
Undistributed net income	—	
Amount chargeable against Capital Shares (Note B)	<u>32,995</u>	
Total, equivalent to aggregate preference in liquidation (net asset coverage equivalent to \$24.49 per share—213.6%)		\$16,103,987
Capital Shares, \$1 par value, 2,000,000 shares authorized, 1,404,807 shares issued and outstanding	1,404,807	
Amounts paid in excess of par value of Capital Shares	14,642,137	
Accumulated net realized gain on investments	\$82,375	
Less, amount chargeable against Capital Shares (Note B)	<u>32,995</u>	49,380
Net unrealized appreciation of investments	<u>2,204,617</u>	
Net asset value of Capital Shares, equivalent to \$13.03 per share		18,300,941
Net assets applicable to outstanding shares		<u>\$34,404,928</u>

Statement of Surplus

For the period April 20, 1967 (inception) through December 31, 1967

Paid-in surplus (amounts paid in excess of par value):

Income Shares:			
Initial issuance to organizers, 4,807 shares	\$	50,185	
Issuance to underwriters, 1,400,000 shares		<u>14,616,000</u>	
Balance, December 31, 1967			<u>\$14,666,185</u>
Capital Shares:			
Initial issuance to organizers, 4,807 shares	\$	50,185	
Issuance to underwriters, 1,400,000 shares		<u>14,616,000</u>	
		14,666,185	
Less, New York Stock Exchange listing expense		<u>24,048</u>	
Balance, December 31, 1967			<u>\$14,642,137</u>
Undistributed net income:			
Net income per accompanying statement	\$	530,429	
Dividends paid to Income Shares \$.37758 per share		<u>530,429</u>	
Balance, December 31, 1967			<u>\$ —</u>
Accumulated net realized gain on investments:			
Net realized gain for the period	\$	144,797	
Less, provision for federal, state and city taxes		<u>22,148</u>	
		122,649	
Distribution paid to Income Shares \$.02867 per share		<u>40,274</u>	
Balance, December 31, 1967			<u>\$ 82,375</u>
Unrealized appreciation of investments:			
Balance, December 31, 1967			<u>\$ 2,204,617</u>

Statement of Investment Income

For the Period April 20, 1967 (inception) through December 31, 1967

INCOME:

Dividends			\$342,144
Interest			<u>334,823</u>
			676,967
EXPENSES:			
Investment advisory fee (Note D)	\$84,198		
Custodian, transfer agent and dividend disbursing	35,648		
Legal and auditing	7,638		
Stockholders' reports, proxy solicitation and meeting	7,673		
State and city taxes (Note C)	8,000		
Directors' fees	2,700		
Miscellaneous	<u>681</u>		
Net investment income			<u>146,538</u>
			<u>\$530,429</u>

Notes to Financial Statements

December 31, 1967

A. Income shares are entitled to cumulative preferential dividends in an amount equivalent to taxable net investment income plus one-half the amount of operating expenses, with a minimum annual rate of \$.625 per share. In addition, short-term realized capital gains are to be distributed to income shareholders to the extent necessary to permit the Fund to qualify as a regulated investment company for federal tax purposes. Such distributions from capital gains will reduce past or future arrearages in the payment of the aforementioned preferential dividends.

Income shares are to be retired on June 30, 1985 at a price of \$11.44 per share plus cumulative preferential dividends, subject to an option permitting their conversion into capital shares in May, 1985.

Capital shares are not entitled to receive any dividends or distributions of capital gains as long as the income shares are outstanding.

B. Cumulative preferential dividends of income shares as of December 31, 1967, and amount chargeable to capital shares, was determined as follows:

Net investment income		\$530,429
Add, One-half amount of operating expense		<u>73,269</u>
Total attributable to income shares		603,698
Distributions:		
Charged to undistributed net income	\$530,429	
Charged to accumulated realized gain on investments	<u>40,274</u>	<u>570,703</u>
Cumulative preferential dividend, December 31, 1967		32,995
Less, Undistributed investment income, December 31, 1967		—
Amount chargeable to capital shares		<u>\$32,995</u>

C. No provision has been made for federal income taxes on net income nor on that portion of gain realized on sale of investments representing short-term capital gains for which the Fund has made or will make timely distribution in order to comply with provisions of the Internal Revenue Code available to investment companies and thereby relieve the Fund from payment of federal income taxes thereon. The Fund will retain and will pay income taxes at ordinary corporation rates on the undistributed portion of short-term capital gains and will retain all long-term capital gains which may be realized. will designate such gains to the holders of capital shares and will pay capital gains taxes thereon for their benefit.

D. Tsai Management & Research Corporation ("TM & R"), investment adviser of the Fund, furnishes investment advice, certain administrative services and office space and facilities and the compensation of all officers and employees of the Fund. For the foregoing, the Fund pays a quarterly fee of .125% on the Fund's average daily net assets up to \$250,000,000 and at decreasing rates on net assets over that amount, subject to reduction by 25% in any quarter in which the Fund's Portfolio Yield Objective (as defined) is not met. No such reduction was applicable during the period and fees paid or accrued to TM & R accordingly aggregated \$84,198. All officers of the Fund are directors, or officers of TM & R.

E. Expenses for the period include legal fees amounting to \$3,600 to Sullivan and Worcester, a partner of which is a director of the Fund.

F. Purchases and sales of investment securities (other than government securities and excluding purchases of \$148,846,923, and redemptions of \$146,519,816 of corporate short-term notes) aggregated \$36,568,447 and \$7,361,056, respectively.

Hemisphere Fund, Inc. Investments at December 31, 1967

**COMMON
STOCK
52.3%**

No. of Shares	Name	Market Value	Market % of Total Net Assets
<i>Automotive</i>			
22,500	Chrysler Corp.	\$ 1,265,625	3.7%
16,000	General Motors Corp.	1,312,000	3.8
		<u>2,577,625</u>	<u>7.5</u>
<i>Banking</i>			
5,000	Bank of America N.T. & S.A.	301,875	.9
9,500	Chase Manhattan Bank	585,438	1.7
10,000	Manufacturers Hanover Trust Co.	451,250	1.3
5,000	Morgan Guaranty Trust Co.	463,750	1.3
		<u>1,802,313</u>	<u>5.2</u>
<i>Data Processing</i>			
3,000	Burroughs Corp.	556,125	1.6
7,000	Control Data Corp.	955,500	2.8
1,200	International Business Machines Corp.	752,400	2.2
		<u>2,264,025</u>	<u>6.6</u>
<i>Drugs & Cosmetics</i>			
3,000	Gillette Co.	186,750	.6
5,500	Revlon, Inc.	462,688	1.3
8,000	Rorer (William H.), Inc.	430,000	1.3
		<u>1,079,438</u>	<u>3.2</u>
<i>Petroleum</i>			
7,000	Amerada Petroleum Corp.	564,375	1.7
15,000	Gulf Oil Corp.	1,145,625	3.3
10,000	Mobil Oil Corp.	426,250	1.2
16,000	Standard Oil Co. (New Jersey)	1,080,000	3.1
		<u>3,216,250</u>	<u>9.3</u>
<i>Tobacco</i>			
6,000	Lorillard (P.) Co.	288,000	.8
10,000	Reynolds (R.J.) Tobacco Co.	442,500	1.3
		<u>730,500</u>	<u>2.1</u>
<i>Miscellaneous</i>			
7,500	American Telephone & Telegraph Co.	377,812	1.1
40,000	Borman Food Stores, Inc.	755,000	2.2
14,000	Combustion Engineering, Inc.	1,039,500	3.0
1,000	du Pont (E.I.) de Nemours & Co.	158,500	.5
10,000	Electrolux Corp.	235,000	.7
24,000	Ex-Cell-O Corp.	894,000	2.6
6,000	General Electric Co.	576,000	1.7
12,000	Meredith Corp.	321,000	.9
17,500	Pan American Sulphur Co.	715,312	2.1
2,000	Polaroid Corp.	501,500	1.4
15,000	West Point-Pepperell, Inc.	757,500	2.2
		<u>6,331,124</u>	<u>18.4</u>
Total Common Stock		<u>\$18,001,275</u>	<u>52.3%</u>

**CONVERTIBLE
PREFERRED
STOCK**
9.5%

No. of Shares	Name	Market Value	Market % of Total Net Assets
8,000	Atlantic Richfield Co. \$3 Cum. Pref. Vtg.	\$ 712,000	2.1 ⁰ / ₀
3,000	Chicago & North Western Railway Co. 5 ⁰ / ₀ Ser. A Vtg..	375,750	1.1
10,000	Franklin National Bank \$2.45	422,500	1.2
3,600	Purex Corporation, Ltd. \$1.35 Cum. Ser. 1 Vtg.	176,400	.5
17,500	Rexall Drug & Chemical Co. \$2 Cum. Ser. A Vtg.	770,000	2.2
15,000	Jim Walter Corp. \$1.20 Cum. Vtg.	806,250	2.4
	Total Convertible Preferred Stock	\$ 3,262,900	9.5⁰/₀

**CONVERTIBLE
DEBENTURES**
29.9%

Principal Amount			
\$ 650,000	Aluminum Co. of America, 5 ¹ / ₄ ⁰ / ₀ , 1991	\$ 731,250	2.1 ⁰ / ₀
400,000	American Airlines, Inc., 4 ¹ / ₄ ⁰ / ₀ , 1992	346,500	1.0
90,000	American Medical Enterprises, Inc., 6 ⁰ / ₀ , 1987	94,500	.3
300,000	Automatic Sprinkler Corp. of America, 4 ³ / ₈ ⁰ / ₀ , 1987 ..	381,000	1.1
227,000	Berkey Photo, Inc., 5 ³ / ₄ ⁰ / ₀ , 1986	383,630	1.1
300,000	Champion Paper & Fibre Co., 4 ¹ / ₂ ⁰ / ₀ , 1984	281,250	.8
400,000	Collins Radio Co., 4 ⁷ / ₈ ⁰ / ₀ , 1987	542,000	1.6
300,000	Continental Telephone Corp., 5 ¹ / ₄ ⁰ / ₀ , 1986	381,000	1.1
800,000	Data Processing Financial & General Corp., 5 ¹ / ₂ ⁰ / ₀ , 1987	1,280,000	3.7
200,000	Fairchild Hiller Corp., 4 ³ / ₈ ⁰ / ₀ , 1992	199,500	.6
400,000	Great Western Financial Corp., 4 ³ / ₄ ⁰ / ₀ , 1987	428,000	1.2
450,000	Harvey Aluminum, Inc., 5 ¹ / ₂ ⁰ / ₀ , 1991	882,000	2.6
250,000	Mohawk Rubber Co., 4 ¹ / ₂ ⁰ / ₀ , 1983	275,000	.8
550,000	National Cash Register Co., 4 ¹ / ₄ ⁰ / ₀ , 1992	739,750	2.1
1,000,000	Radio Corp. of America, 4 ¹ / ₂ ⁰ / ₀ , 1992	1,102,500	3.2
300,000	Scientific Data Systems, Inc., 3 ¹ / ₂ ⁰ / ₀ , 1992	441,000	1.3
290,000	Taylor Instrument Co., 4 ¹ / ₂ ⁰ / ₀ , 1987	282,750	.8
400,000	United Air Lines, Inc., 4 ¹ / ₄ ⁰ / ₀ , 1992	396,000	1.2
500,000	Williams Brothers Co., 5 ¹ / ₂ ⁰ / ₀ , 1988	1,125,000	3.3
	Total Convertible Debentures	\$10,292,630	29.9⁰/₀
	Total Investments	\$31,556,805	91.7⁰/₀

**CASH AND
EQUIVALENT**
8.3%

Corporate short-term discount notes, at cost plus dis- count earned	\$ 2,497,005	7.3 ⁰ / ₀
Cash and receivables, less liabilities	351,118	1.0
Total Cash and Equivalent	\$ 2,848,123	8.3⁰/₀
TOTAL NET ASSETS	\$34,404,928	100.0⁰/₀

NOTE: Market value is based on closing prices on December 29, 1967, or in the absence of a recorded sale, closing bid prices on that date.

Report of Independent Certified Public Accountants

To the Board of Directors and Shareholders of Hemisphere Fund, Inc.

We have examined the statement of assets, liabilities and capital of HEMISPHERE FUND, INC., including schedule of investments, as of December 31, 1967, and the statements of investment income and surplus for the period April 20, 1967 (inception) through December 31, 1967. Our examination was made in accordance with generally accepted auditing standards, and accordingly included confirmations from Chemical Bank New York Trust Company of cash and securities held at December 31, 1967, and such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforesaid financial statements present fairly the financial position of Hemisphere Fund, Inc., at December 31, 1967, and the results of its operations for the period then ended, in conformity with generally accepted accounting principles.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, January 31, 1968.

This report has been prepared for the information of shareholders of Hemisphere Fund, Inc. and is not authorized in connection with offering shares unless preceded or accompanied by an effective prospectus of the fund.

Hemisphere Fund, Inc.

245 PARK AVENUE, NEW YORK, N.Y. 10017

DIRECTORS

Joseph Auerbach
John S. Fielden

Robert W. Purcell
Laurence A. Tisch

Gerald Tsai, Jr.

OFFICERS

Gerald Tsai, Jr. *President*
Robert Campbell, Jr. *Vice President*
Robert C. Edwards *Vice President*
Irwin Lainoff *Vice President*
Lucy M. Peirce *Vice President*
Donald A. Simon *Vice President*
Theodore Zimmerman ... *Vice Pres., Counsel and Sec'y*
Richard J. Wasilewski *Treasurer*

INVESTMENT ADVISOR & PRINCIPAL UNDERWRITER

Tsai Management & Research Corporation, N.Y., N.Y.

CUSTODIAN

Chemical Bank New York Trust Company
New York, N.Y.

TRANSFER AGENTS

Chemical Bank New York Trust Company
New York, N.Y.
First National Bank of Boston
Boston, Mass.
Montreal Trust Company
Toronto, Ontario, Canada

REGISTRARS

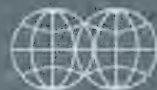
Morgan Guaranty Trust Company
New York, N.Y.
Old Colony Trust Company
Boston, Mass.
Royal Trust Company
Toronto, Ontario, Canada

AUDITORS

Lybrand, Ross Bros. & Montgomery, New York, N.Y.

LEGAL COUNSEL

Sullivan & Worcester, Boston, Mass.



Hemisphere Fund, Inc.

Lucy M. Peirce, Vice President of the Fund and of the investment advisor, was an employee of Fidelity Management and Research Company for a number of years before joining the investment advisor.

Donald A. Simon, Vice President of the Fund and a Vice President and Director of the investment advisor, was associated with Hornblower & Weeks-Hemphill, Noyes from 1960 until joining the investment advisor.

Theodore Zimmerman, Vice President, General Counsel and Secretary of the Fund and of the investment advisor, was Secretary and General Counsel of the Commonwealth Group of Mutual Funds, San Francisco, California, from 1964 to 1966, and was an attorney with the New York law firm of Winthrop, Stimson, Putnam & Roberts prior to 1964.

Richard J. Wasilewski, Treasurer of the Fund and of the investment advisor, was an accountant with Cities Service Company from 1959 to 1961, an operations analyst with National Broadcasting Company, Business Affairs Division, from 1961 to 1962 and a member of the audit staff and management consultant with Lybrand, Ross Bros. & Montgomery from 1962 until joining the investment advisor.

CERTIFICATE

Pursuant to a resolution duly passed by its Board of Directors, Hemisphere Fund, Inc. hereby applies for listing of the above mentioned securities on The Toronto Stock Exchange, and the undersigned officer thereof hereby certifies that the statements and representations made in this application and in the documents submitted in support thereof are true and correct.



HEMISPHERE FUND, INC.

Per: "THEODORE ZIMMERMAN,"
Vice President.

CERTIFICATE OF UNDERWRITER

To the best of my knowledge, information and belief, all of the statements and representations made in this application and in the documents submitted in support thereof are true and correct.

BACHE & COMPANY, INC.

Per: "RAMON M. BRINKMAN",
Vice President.

DISTRIBUTION OF INCOME SHARES AS OF SEPTEMBER 29, 1967

Number							Shares
6	Holders of	1	—	24	share lots	.....	105
369	" "	25	—	99	" "	.....	16,131
704	" "	100	—	199	" "	.....	75,555
377	" "	200	—	299	" "	.....	77,193
87	" "	300	—	399	" "	.....	26,672
152	" "	400	—	499	" "	.....	61,366
231	" "	500	—	999	" "	.....	141,062
235	" "	1000	—	up	" "	.....	1,005,273
<u>2161</u> Shareholders							<u>Total shares</u> <u>1,403,356</u>

DISTRIBUTION OF CAPITAL SHARES AS OF SEPTEMBER 29, 1967

Number							Shares
63	Holders of	1	—	24	share lots	.....	891
1576	" "	25	—	99	" "	.....	67,096
1732	" "	100	—	199	" "	.....	181,042
724	" "	200	—	299	" "	.....	149,647
175	" "	300	—	399	" "	.....	53,967
233	" "	400	—	499	" "	.....	94,338
253	" "	500	—	999	" "	.....	151,761
240	" "	1000	—	up	" "	.....	704,615
<u>4996</u> Shareholders							<u>Total shares</u> <u>1,403,357</u>

